

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1991**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-104

STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1991

JUNE 1992



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STATE OF CALIFORNIA
Office of the Auditor General
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Kurt R. Sjoberg
Auditor General (acting)

June 24, 1992

F-104

Honorable Robert Campbell, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its financial audit report of the State Treasurer's Office Statement of Securities Accountability as of June 30, 1991.

The Statement of Securities Accountability presents the securities owned by or pledged to the State directly or under investment agreements and securities held for safekeeping. The State Treasurer's Office is responsible for the safekeeping of all securities held in the treasury or other depositories, except for securities owned by or pledged to the University of California, or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Teachers' Retirement System, the Legislators' Retirement System, or Judges' Retirement System. For the Statement of Securities Accountability, the State Treasurer's Office assigns dollar amounts to each security for ease of accountability rather than for purposes of valuing securities to cost or market. The dollar amounts assigned represent the par or face value, the original face value, the original principal value, the current outstanding principal balance, or a nominal value of \$1 per certificate or note. Therefore, the dollar amounts presented in the Statement of Securities Accountability should not be used to determine the value of investments of, or pledged to the State. We found that the statement presents fairly the securities accountability of the State Treasurer's Office as of June 30, 1991.

We conducted this audit to comply with the California Government Code, Section 13299.1.

Respectfully submitted,

A handwritten signature in cursive script, reading "Kurt R. Sjoberg".

KURT R. SJOBERG
Auditor General (acting)

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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of securities accountability as of June 30, 1991. This statement of securities accountability is the responsibility of the State Treasurer's Office. Our responsibility is to express an opinion on the statement of securities accountability based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accompanying statement of securities accountability is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of securities accountability. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of securities accountability. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code as discussed in Note 1 and is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the statement of securities accountability referred to above presents fairly, in all material respects, the securities accountability of the State Treasurer's Office as of June 30, 1991, in conformity with the basis of accounting described in Note 1.

This report is intended solely for the purpose of providing information required by Section 13299.1 of the California Government Code and should not be used for any other purpose.

OFFICE OF THE AUDITOR GENERAL

CURT DAVIS, CPA
Deputy Auditor General

Date: April 30, 1992

Staff: Sally L. Filliman, CPA, Audit Manager
Karen L. McKenna, CPA
Lisa Foo, CPA
Kathleen Svejda

STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1991

<u>Account Title</u>	<u>Securities and Investment Agreements in the Vault of the State Treasurer's Office</u>	<u>Securities on Deposit With Banks and Trust Companies</u>	<u>Securities in Transit</u>	<u>Total</u>
<u>Pooled Money Investment Account</u>				
Securities (Note 2)	<u>\$1,010,000,000</u>	<u>\$15,581,117,318</u>	<u>\$50,000,000</u>	<u>\$16,641,117,318</u>
<u>Individual State Investment Accounts</u>				
Antioch and Carquinez Strait Bridge Toll Revenue Fund		3,175,000		3,175,000
California Housing Finance Agency	118,145,235	76,119,359		194,264,594
California National Guard		2,276,000		2,276,000
California Pollution Control Financing Authority		26,499,000		26,499,000
Central Valley Project Reid Gardner		201,049,300		201,049,300
Central Valley Project Reid Gardner - Refunding		14,940,000		14,940,000
Central Valley Project Water System		209,278,600		209,278,600
Energy Efficiency Fund	16,950,121			16,950,121
First-Time Home Buyers Fund	8,905			8,905
Legislators' Retirement System	9			9
Los Angeles State Office Building Authority	21,666,680			21,666,680
Public Employees' Retirement System	8,567			8,567
Special Deposit Fund - Alice Burch Trust Fund	2,000	18,000		20,000
State Compensation Insurance Fund	253,638,517	4,698,438,185		4,952,076,702
State Controller's Office		220,000		220,000
State Lottery Fund		2,718,219,000		2,718,219,000
State Public Works Board	3,382,138	70,199,000		73,581,138
Toll Bridge Construction Fund	3,706,954	27,224,600		30,931,554
Veterans' Debenture Revenue Fund	45,000,000	78,968,000		123,968,000
Veterans' Farm and Home Building Fund of 1943	426,965,166	141,863,100		568,828,266
Water Resources, Department of		<u>171,146,600</u>		<u>171,146,600</u>
Total Individual State Investment Accounts	<u>889,474,292</u>	<u>8,439,633,744</u>		<u>9,329,108,036</u>
<u>Collateral To Secure Deposits in Banks and Savings and Loans</u>				
Agency bank deposits	3,350,000	146,951,052		150,301,052
State Treasurer's Office bond proceeds		98,236,635		98,236,635
State Treasurer's Office demand deposits	61,900,400	568,187,768		630,088,168
State Treasurer's Office time deposits	<u>32,487,760</u>	<u>1,226,062,467</u>		<u>1,258,550,227</u>
Total Collateral To Secure Deposits in Banks and Savings and Loans	<u>97,738,160</u>	<u>2,039,437,922</u>		<u>2,137,176,082</u>

Account Title	Securities and Investment Agreements in the Vault of the State Treasurer's Office	Securities on Deposit With Banks and Trust Companies	Securities in Transit	Total
<u>Pledges Received by State Agencies</u>				
Consumer Affairs, Department of	16,813,336	13,000		16,826,336
Corporations, Department of	3,002,367			3,002,367
Deposit Officer Pending		746,500		746,500
Employment Development Department	81,890,503	1,356,350		83,246,853
Equalization, Board of	99,000			99,000
Franchise Tax Board	219			219
Health Services, Department of	1,000,000			1,000,000
Industrial Relations, Department of	78,049,405	102,801,000	100,000	180,950,405
Insurance, Department of	3,330,353,273			3,330,353,273
Real Estate, Department of	2,345,000			2,345,000
State Banking Department	9,803,513	44,303,802		54,107,315
State Lands Commission	11,080,839	57,000		11,137,839
Transportation, Department of	14,331,907	28,025,000		42,356,907
Trustees of California State University	3,312,893	440,000		3,752,893
Water Resources Control Board	923,890			923,890
Water Resources, Department of	135,000			135,000
Total Pledges Received by State Agencies	<u>3,553,141,145</u>	<u>177,742,652</u>	<u>100,000</u>	<u>3,730,983,797</u>
<u>General Safekeeping</u>				
Alan Gene Whitaker Reimbursement Fund	1			1
Corrections, Department of		1,071		1,071
Developmental Services, Department of	3,303	1,100,000		1,103,303
Education, California Department of	10,622	32,000		42,622
Quimby Island Reclamation District	156			156
Rehabilitation, Department of	10,245			10,245
Secretary of State	10,000			10,000
State Controller's Office	16,117,937			16,117,937
State Treasurer's Office - Bearer bonds exchanged for registered bonds	2,128,448,000			2,128,448,000
Trust accounts	98,452,165			98,452,165
Trustees of California State University	3,500			3,500
Total General Safekeeping	<u>2,243,055,929</u>	<u>1,133,071</u>		<u>2,244,189,000</u>
Total Securities	<u>\$7,793,409,526</u>	<u>\$26,239,064,707</u>	<u>\$50,100,000</u>	<u>\$34,082,574,233</u>

The accompanying notes are an integral part of this statement.

**NOTES TO THE STATEMENT
OF SECURITIES ACCOUNTABILITY**

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code. This statement presents the securities owned by or pledged to the State directly or under investment agreements and those securities held for safekeeping. The State Treasurer's Office (STO) must account for all securities held in the treasury or other depositories, except for securities owned by or pledged to the University of California or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Teachers' Retirement System, the Legislators' Retirement System, or the Judges' Retirement System. The securities for which the STO is accountable are categorized as follows:

- Pooled Money Investment Account (PMIA) securities consist of investments with financial institutions. The investments are purchased with available money from various funding sources. The California Government Code, Section 16480.1, authorizes the State's Pooled Money Investment Board to designate the amount of available money to make such investments. In addition, Section 16480.2 expresses the intent that such investments realize the maximum return consistent with safe and prudent treasury management. Earnings on the PMIA securities are credited to the State's General Fund, the Surplus Money Investment Fund, the Local Agency Investment Fund, the Fish and Game Preservation Fund, the Public Employees' Retirement Fund, and the State Teachers' Retirement Fund.
- Individual state investment accounts consist of investments with financial institutions that are not invested through the PMIA.
- Collateral to secure deposits in banks and savings and loan associations consists of securities pledged by these institutions to protect the money that the State has on deposit with the institutions.

- Pledges received by state agencies consist of securities pledged to the State by certain businesses to protect consumers, to guarantee contractor performance, and to ensure payment of obligations such as disability benefits and state taxes.
- General safekeeping amounts consist of securities held on behalf of state agencies or other organizations.

B. Valuation of Securities

In the accompanying statement of securities accountability, the STO does not report securities at either book value or market value in accordance with generally accepted accounting principles. Instead, the STO values securities as follows:

Securities and Investment Agreements in the Vault of the State Treasurer's Office:

- Bonds, commercial paper, certificates of deposit, and surety bonds are valued at par value or face value.
- Stock certificates are valued at \$1 per share.
- Government National Mortgage Association certificates, Federal National Mortgage Association certificates, and Federal Home Loan Mortgage Corporation certificates are valued at their current outstanding principal balances.
- Real estate mortgage notes held as investments of individual state accounts are valued at \$1 per note.
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their original principal balances.

Securities on Deposit With Banks and Trust Companies

- Bonds, commercial paper, certificates of deposit, surety bonds, Federal National Mortgage Association certificates (except participation certificates), and Federal Home Loan Mortgage Corporation certificates (except participation certificates) are valued at par value or face value.
- Federal National Mortgage Association participation certificates and Federal Home Loan Mortgage Corporation participation certificates are valued at their current outstanding principal balances.
- Government National Mortgage Association physical certificates are valued at original face value.

- Government National Mortgage Association book entry certificates are valued at their current outstanding principal balances.
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their original principal balances.
- Real estate mortgage notes held as pledges to secure the court and private trusts of banks and savings and loans are valued at their current outstanding principal balances.

2. Pooled Money Investment Account - Securities

The STO reported a total value of \$16,641,117,318 for the securities in the PMIA at June 30, 1991. In its statement of cash accountability for June 30, 1991, the STO reported a total value of \$16,141,906,082 for these same securities. The difference between the two values results because the STO valued the PMIA securities in the statement of securities accountability according to the methods described in Note 1.B., but it valued the same securities at book value for the statement of cash accountability.

3. Personal Property

In addition to depositing securities, state agencies deposit personal property in the vault of the STO. The following table lists entities having personal property in the vault as of June 30, 1991:

<u>Entity</u>	<u>Number of Items</u>
Deposit Officer Pending	60
Developmental Services, Department of	105
Emergency Stock - Trust Agency Checks	31,000
Housing and Community Development, Department of	3
Motor Vehicles, Department of	2,610
Personnel Administration, Department of	1
State Controller's Office	12
State Treasurer's Office	<u>19,005</u>
Total	<u><u>52,796</u></u>

Each item or sealed package of personal property is counted individually. However, because personal property items are not securities, they are excluded from the statement of securities accountability.

**cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps**